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**PROCUREMENT REFORM**

**Implementation of the Federal  
Acquisition Streamlining Act  
of 1994**

Statement of David E. Cooper, Director  
Acquisition Policy, Technology, and Competitiveness Issues



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Madam Chair and Members of the Committee:

It is a pleasure to be here this morning to discuss the preliminary results of our ongoing reviews of the implementation of key aspects of the Federal Acquisition Streamlining Act of 1994. The Act, signed last October, represented a concerted effort by Congress, the executive branch, and industry to begin creating a more efficient and responsive federal procurement system. Among other things, the Act

- created a \$100,000 simplified acquisition threshold below which procurements are exempted from numerous statutory requirements,
- expressed a strong preference for acquiring commercial items and exempts procurements of such items from a host of statutory requirements,
- called for the conversion of the procurement system from a paper-based system to a Federal Acquisition Computer Network (FACNET), and
- lessened restrictions for "micro-purchases" (purchases under \$2,500).

### SUMMARY

My testimony today focuses on the nature and extent of progress in (1) promulgating the regulations necessary to implement the Act, (2) establishing FACNET, and (3) using government purchase cards for federal procurements, especially micro-purchases.

The executive branch has worked diligently to promulgate the regulations required to implement the Act's requirements. At this point, however, some of the regulations required to implement the Act's requirements will not be issued in final form by September 8, 1995, in full compliance with the Act. We are concerned about the lack of a well-defined architecture for FACNET and an overall implementation strategy. The executive branch is expanding the use of government purchases cards and encouraging their use in connection with micro-purchases. With this overview, I will now talk about each of these issues in more detail.

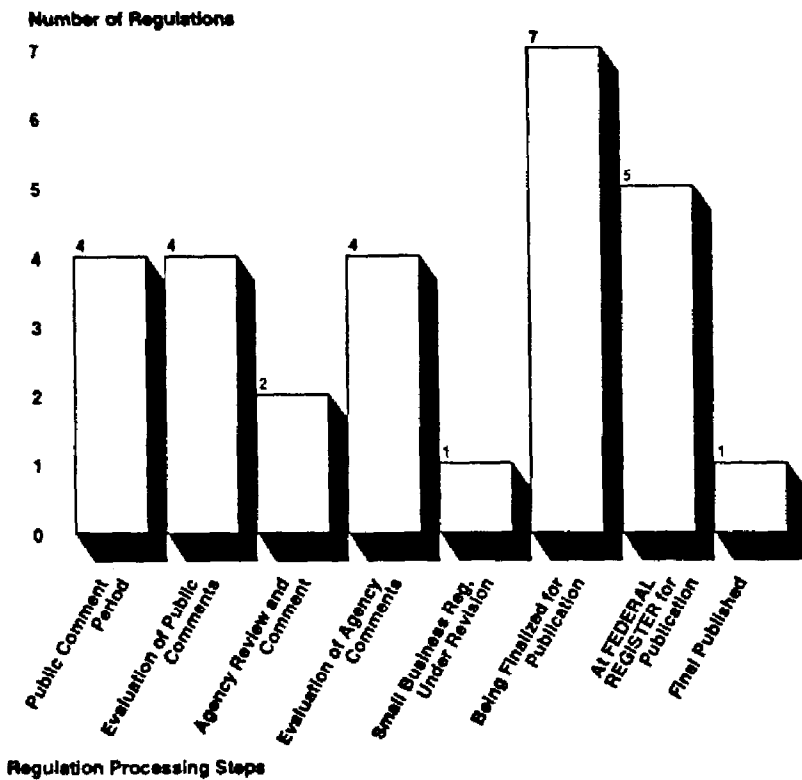
### REGULATIONS NEEDED TO IMPLEMENT THE ACT

Clear, concise, and easy-to-understand regulations are essential to achieve the reforms envisioned in the Act. Since the legislation was signed last October, the executive branch has been working diligently to revise the regulations that govern federal procurement, especially the Federal Acquisition Regulation (FAR). The FAR establishes uniform rules and procedures used by thousands of contracting officials in federal agencies and industry to execute the government's procurement function.

The Act established time frames and public comment requirements for revising the FAR. Specifically, it requires the executive branch to publish final regulations in the Federal Register by September 8, 1995. In any case, the Act provides that its requirements take effect no later than October 1, 1995. The executive branch, emphasizing the importance it places on reforming the procurement process, established a goal of issuing final regulations by March 23, 1995—6 months ahead of the legislative deadline.

The executive branch has not met its accelerated schedule, and much remains to be done if the Act's September 8, 1995, deadline is to be met. As of July 18, 1995, 27 regulations had been published in the Federal Register for public comment. Of the total, one regulation had been published in final form and five had been sent to the Federal Register for publication. Seven regulations are currently being finalized and the remaining regulations are in various stages of review, evaluation, and revision. Figure 1 depicts the status of efforts to promulgate regulations to be included in the FAR.

**Figure 1: Status of Regulations-July 18, 1995**



In addition to these regulations, other agency-specific regulations are being developed to implement the Act's requirements. Some of these have not yet been published for public comment and, because the mandated public comment period is 60 days, these regulations will not be issued in final form by the Act's mandated deadline.

## IMPLEMENTING THE FEDERAL ACQUISITION COMPUTER NETWORK

FACNET, a key feature of the Act, is intended to provide a "single face to industry" by creating a single interconnected, interoperable, standard-based electronic commerce capability for all federal agencies. The single face approach is especially important to small businesses that have limited staff and resources to conduct business in different ways with different agencies.

FACNET is expected to provide federal agencies and businesses with an electronic capability to, at a minimum, obtain information on proposed procurements, submit responses, and receive awards. We believe that FACNET, if effectively implemented, could expedite federal contracting, reduce the procurement processing cost, and provide businesses greater access to federal procurement opportunities while adequately protecting the government's and private sector's procurement-related information and interests.

To make FACNET a reality, an adequate system architecture must be defined, along with standards for (1) developing software, (2) managing data repositories, (3) providing security functions, (4) establishing communications connectivity, (5) managing network operations, and (6) controlling changes made to system components. Moreover, those responsible for managing the implementation must ensure that the system's architecture and associated standards are enforced.

Our work indicates that the executive branch has not yet

- defined a FACNET architecture and implementation strategy,
- developed an effective "single face to industry" approach, and
- ensured the availability of information that businesses need about FACNET.

In April 1995, a draft FACNET architecture was issued. However, according to executive branch officials, agencies were not required to conform to the draft architecture. Furthermore, the draft architecture was not complete and key concepts were undefined. For example, standards for protecting the security of sensitive procurement information are yet to be defined.

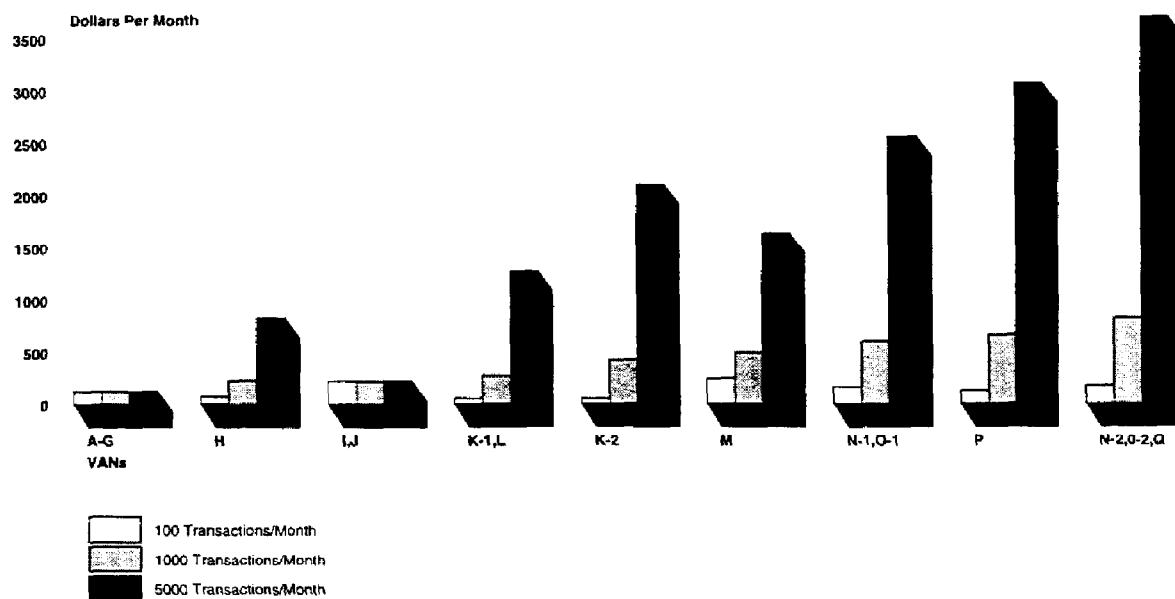
Recently, executive branch officials told us that the draft April 1995 architecture had been abandoned and that efforts are underway to redefine the FACNET architecture. Until a well-defined architecture is established, efforts to implement FACNET run a significant risk of failure. An inadequately defined architecture could lead to fraud, loss of data integrity, lack of network availability, inability to verify receipt of transactions, costly ad hoc changes to system components, and increased life-cycle maintenance.

Although the architecture is critical to FACNET, other management actions are necessary to ensure successful implementation. For example, businesses need information on (1) how to register for FACNET, (2) what procurements are available through FACNET, and (3) what services and prices are available through Value Added Networks (VANs).

We noted problems in each of these areas. For example, only about 100 businesses are registered in the FACNET data base. A frequent criticism is that the government is not providing specific information about federal buying activities' plans to purchase products through FACNET. Businesses need such information to determine, among other things, the potential level of business they can expect through FACNET and the type and level of VAN services they need to use FACNET.

The use of VANs is a key component of FACNET. VAN services and prices are important to businesses as they consider whether to seek to compete for contracts through FACNET. To determine the potential services and costs that a business might be exposed to, we surveyed the VANs certified by the government as of May 31, 1995. We found that VAN services and prices varied widely. Depending on the volume of transactions and types of services, businesses could incur costs ranging from about \$70 to several thousand dollars monthly. Information on VAN services and prices is needed by businesses desiring to use FACNET. Figure 2 shows the range of VAN prices we found.

**Figure 2: VAN Prices**



Note 1: VANs A-G are grouped for display purposes. Values range from \$67 to \$117.

Note 2: K-1, N-1, O-1 represent the cost of VAN services during non-peak hours of operation. K-2, N-2, O-2 represent the cost of VAN services during peak hours of operation.

Note 3: VANs H, K, P, and Q do not offer software with their services.

## MICRO-PURCHASES AND GOVERNMENT PURCHASE CARDS

The Act established a new procurement category of "micro-purchases," or purchases limited to \$2,500 or less. The Act (1) allows federal agencies to make micro-purchases without obtaining competitive quotations from suppliers, (2) eliminates the requirement that purchases be made only from small businesses, and (3) exempts such purchases from the Buy American Act.

The new micro-purchase category was intended to expedite the procurement process and reduce administrative costs. According to available information, micro-purchases comprise about 85 percent of the government's procurement transactions. Studies have demonstrated that government purchase cards have the potential for significantly streamlining the federal procurement process by eliminating virtually all the paperwork normally associated with many government purchases. The National Performance Review, completed in September 1993, estimated that \$180 million could be saved annually if 50 percent of the government's small purchases were made with purchase cards.

To maximize the advantages of the Act's new micro-purchase provisions, the President, through executive order, directed federal agencies to expand the use of government purchase cards. We found that the use of purchase cards has grown significantly since becoming available for governmentwide use in 1989. For example, in fiscal year 1993, agencies used purchase cards for about 1.6 million purchases with a total value of about \$472 million. In fiscal year 1994, purchase cards were used to make nearly 2.5 million purchases with a total value of about \$808 million. In fiscal year 1995, through June, purchase cards have been used to make purchases exceeding \$1 billion.

In April 1995, over 1,000 federal activities were using purchase cards and, according to the General Services Administration, there were over 100,000 purchase cards in circulation. Further growth in the use of purchase cards is expected as agencies begin distributing and using the cards more widely. When used properly, the purchase cards can be a very effective acquisition reform instrument to reduce the administrative costs of federal procurements, especially micro-purchases.

Increased use of purchase cards, however, means that businesses have to change the way they do business with the government. Businesses accepting purchase cards have to pay a fee for such purchases. However, businesses accepting purchase cards are likely to be paid more quickly since payments are made by the purchase card bank rather than the government.

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That concludes my prepared statement. In closing, Madam Chair, I would like to emphasize that implementation of the Act's requirements is only in its early stages. Much

remains to be done. The real test will be in how executive branch procurement officials respond to the new procurement culture envisioned by the Act. My colleagues and I will be pleased to address any questions you or others might have.

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